

**INTERIOR TOWNSHIP
ONTONAGON COUNTY
FINANCIAL REPORT
With Supplemental Information**

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Interior Township	County Ontonagon
Audit Date 3/31/2005	Opinion Date 1/19/2006	Date Accountant Report Submitted to State: 2/20/2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Roger J. Kolehmainen PC CPA			
Street Address 1445 East Cloverland Drive		City Ironwood	State MI
Accountant Signature 		ZIP 49938	Date 2/20/2006

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Roger J. Kolehmainen CPA PC
1445 East Cloverland Drive
Ironwood, MI 49938
(906) 932-3600

INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Interior Township
Trout Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Interior Township as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis in our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects with the exception of Pension Fund Activities not included in the Fiduciary Fund Statement; the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Interior Township as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – For State and Local Governments* as of April 1, 2004.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting and Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements of the Interior Township taken as a whole. The combining and individual fund financial statements listed in the table of contents under supplemental information are presented for the purpose of additional analysis and are not a required part of the financial statements of the Interior Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 19, 2006, on our consideration of Interior Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Roger J. Kolehmainen PC
Certified Public Accountant

Ironwood, Michigan
January 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

Year ended March 31, 2005

Management's Discussion and Analysis

This section of the Interior Township's annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2005. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Government* and is intended to provide the financial results for the fiscal year ending March 31, 2005. This is the first year of GASB 34 implementation. As a result the financial report is presented very differently than previous years. Because this is the first year of implementation of GASB Statement No. 34, prior-year data is not available.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The new statement that have not been required or provided in past years but are now required based on government auditing and accounting standards. The statement report the governmental activities of the Township that include all services performed by the Township. These activities are funded mostly by State revenue sharing, property taxes and charges for services.

The statement of net assets, as stated previously, shows the Township's assets and liabilities. The corresponding balance between the amounts calculates the net assets or deficit of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the Township generally is. This shows if the Township will be able to fund their current obligations and shows what they have available for future use.

The statement of activities shows the current year change in net assets on revenue less expenditure basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township. Any deficiency of revenues over expenditures results in a deficit for the year that in turn reduces the net assets (or increases a deficit) of the Township.

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains two governmental funds. Information is presented separately in the government fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund (considered a major fund) and the Township's Special Revenue Funds (considered a non-major fund).

Individual fund data for each fund is presented separately in the "Other Supplemental Information" section of this report.

The Township adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund and is included in the "Required Supplemental Information" section of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP**

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has two proprietary fund types- enterprise funds. The enterprise funds of the Township are used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Funds is presented in both the government-wide financial statements and the fund financial statements and is considered a major fund. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. The fiduciary funds for the Township are the Tax Collection Fund and Pension Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements. The various pension reports on vested Board members were not retained for all participants, therefore, the changes in pension holdings are not presented as part of the financial statements as required.

Notes to Financial Statements

Notes to the financial statements are included in the financial statements, and provide additional information that is essential for a full understanding of the data provide in the government-wide and the fund financial statements.

Government-wide Financial Statements-Condensed Financial Information

Statement of Net Assets

The following table shows the March 31, 2005, condensed statement of net assets with a detailed analysis of the statement below.

	Governmental	Primary Government	
	Activities	Business-Type	
ASSETS	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Current Assets:			
Cash and other assets	\$212,517	\$149,614	\$362,131
Other assets	15,868	16,976	32,844
Non-current Assets			
Restricted cash		24,108	24,108
Capital Assets, net	44,988	1,282,380	1,327,368
TOTAL ASSETS	<u>\$273,373</u>	<u>\$1,473,078</u>	<u>\$1,746,450</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP

	Governmental	Primary Government Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
LIABILITIES			
Current Liabilities	\$13,926	\$12,501	\$26,427
Non-current Liabilities		199,000	199,000
TOTAL LIABILITIES	<u>\$13,926</u>	<u>\$211,501</u>	<u>\$225,427</u>
NET ASSETS			
Investment in capital assets net of related debt	\$44,988	\$1,079,380	\$1,124,368
Restricted	645		645
Unrestricted	213,813	182,197	396,010
Total Net Assets	<u>\$259,446</u>	<u>\$1,261,577</u>	<u>\$1,521,023</u>

For governmental activities, net assets increased by \$26,524 during the fiscal year. For business-type activities, net assets decreased by \$45,305 during the year.

Results of Operations

The following represents the changes in net assets for both governmental and business-type activities for the year ended March 31, 2005.

	Governmental	Primary Government Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
REVENUES			
Program Revenue:			
Charges for services	\$4,400	\$46,513	\$50,913
General Revenue:			
Property taxes	27,482		27,482
Other income	19,211	6,064	25,275
Unrestricted grants	34,360		34,360
Total Revenue	<u>\$85,453</u>	<u>\$52,577</u>	<u>\$138,030</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP

	Governmental	Primary Government	
	<u>Activities</u>	Business-Type	<u>Total</u>
EXPENSES:		<u>Activities</u>	
General Government	\$40,498		\$40,498
Public Safety	12,371		12,371
Public Works	7,251		7,251
Recreation and Culture	1,210		1,210
Other Expenses	2,170		2,170
Total Expenses	\$63,500	\$	\$63,500
Business-Type Activities:			
Water & Sewer Expenses		\$97,882	\$97,882
Increase (Decrease) in Net Assets	\$21,953	(\$45,305)	(\$23,352)
Net Assets, Beginning of Year	237,493	1,306,882	1,544,375
Net Assets, End of Year	\$259,446	\$1,261,577	\$1,521,023

Governmental Activities

Property taxes and other tax revenues comprise \$27,482 or approximately 32 percent of total governmental revenues. The Township also collected \$3,493 for services provided. And, at year end the Township reported \$34,360 in grants not restricted for specific purposes and \$10,043 in Federal and State proceeds for restricted purposes. These amounts were due to revenue sharing from the State of Michigan and Federal Government, comprising 52 percent of total governmental revenues.

The Township expended \$63,500 on governmental programs and services. One of the largest expense categories were for legislative and general government amounting to \$40,498 or 64% of the reported expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS INTERIOR TOWNSHIP

Business-Type Activities

Business-type activities decreased the Township's net assets by \$45,305. Charges for services for water and sewer activities for the year were \$46,513 and expenditures amounted to \$97,882.

Financial Analysis of Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirement.

Governmental Funds

The focus of the Township's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. The Township's governmental funds reported combined ending fund balances of \$214,458 of which \$645 is reserved and the remaining \$213,813 is available for spending at the government's discretion.

On the budgetary basis of accounting, the Township ended the year with revenue 21% greater than the budget and expenditures 29% less than the budgeted amount. Significant positive revenue variances were recorded for State Shared Revenues and other revenues.

Proprietary Fund

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds as of March 31, 2005 were \$59,927 and \$122,270 respectively.

Capital Assets and Debt Administration

The Township's investment in capital assets, net of accumulated depreciation for its governmental and business-type activities as of March 31, 2005 was \$1,282,380.

There were no major capital expenditures for governmental funds and business-type activities for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP

Other Economic Factors and Next Years Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state cuts will likely translate into strategic reductions of Township expenses to maintain a sound budget. Despite the poor outlook of the state's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families and maintain a safe and clean community in which to live.

Request for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Township Supervisor
Interior Township
PO Box 8
Trout Creek, MI

INTERIOR TOWNSHIP
STATEMENT OF NET ASSETS

March 31, 2005

	<u>Government Activities</u>	<u>Business – type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$212,517	\$149,614	\$362,131
Accounts receivable-net	6,362	11,381	17,743
Delinquent taxes receivable	4,251		4,251
Due from other funds	265	2,874	3,139
Accrued interest income		413	413
Deferred charges	4,989	2,308	7,297
Total Current Assets	\$228,384	\$166,590	\$394,974
RESTRICTED ASSETS:			
Restricted cash		\$24,108	\$24,108
NON-CURRENT ASSETS:			
Capital assets	186,911	2,188,338	2,375,249
Accumulated depreciation	(141,923)	(905,958)	(1,047,881)
Total Non-current Assets	\$44,988	\$1,282,380	\$1,327,368
TOTAL ASSETS	\$273,372	\$1,473,078	\$1,746,450
LIABILITIES			
Current Liabilities:			
Accounts payable	\$6,734	\$314	\$7,048
Contractor payable		3,950	3,950
Accrued wages/taxes	4,318	854	5,172
Accrued interest payable		3,383	3,383
Due to other funds	2,874		2,874
Current maturity on long-term debt		4,000	4,000
Total Current Liabilities	\$13,926	\$12,501	\$26,427
NON-CURRENT LIABILITIES			
Bonds payable		203,000	203,000
Current maturity on long-term debt		(4,000)	(4,000)
Total Non-current Liabilities	\$	\$199,000	\$199,000
TOTAL LIABILITIES	\$13,926	\$211,501	\$225,427
NET ASSETS			
Investment in capital assets, net of related debt	\$44,988	\$1,079,380	\$1,124,368
Reserved	645		645
Unreserved	213,813	182,197	396,010
TOTAL NET ASSETS	\$259,446	\$1,261,577	\$1,521,023
TOTAL LIABILITIES AND NET ASSETS	\$273,372	\$1,473,078	\$1,746,450

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF ACTIVITIES
Year Ended MARCH 31, 2005

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>	Net (Expense) Revenue
Governmental Activities			
General government	\$40,498	\$	(\$40,498)
Public safety	12,371	2,147	(10,224)
Public works	7,251	2,253	(4,998)
Recreation and culture	1,210		(1,210)
Other	2,170		(2,170)
Total Governmental Activities	\$63,500	\$4,400	(\$59,100)
Business-type Activities			
Water	\$57,170	\$45,361	(\$11,809)
Sewer	40,712	1,152	(39,560)
Total Business – type Activities	\$97,882	\$46,513	(\$51,369)
Total	\$161,382	\$50,913	(\$110,469)
Changes in Net Assets			
	<u>Governmental Activities</u>	<u>Business – type Activities</u>	<u>Total</u>
Net (Expense) Revenue	(\$59,100)	(\$51,369)	(\$110,469)
General Revenues:			
Property taxes	\$27,482		\$27,482
Federal Shared revenues	9,136		9,136
State-Shared revenues	34,360		34,360
Investment income	3,863	2,378	6,241
Special assessments		3,686	3,686
Miscellaneous	5,372		5,372
Donations	840		840
Total General Revenues and Transfers	\$81,053	\$6,064	\$87,117
Changes in Net Assets	\$21,953	(\$45,305)	(\$23,352)
Net Assets at Beginning of Year	237,493	1,306,882	1,544,375
Net Assets at End of Year	\$259,446	\$1,261,577	\$1,521,023

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$91,148	\$121,369	\$212,517
Accounts receivable-net	6,362		6,362
Delinquent taxes receivable	1,376	2,875	4,251
Due from other funds	265	26,705	26,970
Deferred charges	3,256	1,733	4,989
TOTAL CURRENT ASSETS	\$102,407	\$152,682	\$255,089
NON-CURRENT ASSETS			
Restricted cash			
TOTAL NON-CURRENT ASSETS	\$	\$	\$
TOTAL ASSETS	\$102,407	\$152,682	\$255,089
LIABILITIES			
Current Liabilities			
Accounts payable	\$6,206	\$528	\$6,734
Accrued wages/taxes	4,168	150	4,318
Due to other funds	28,488	1,091	29,579
TOTAL CURRENT LIABILITIES	\$38,862	\$1,769	\$40,631
TOTAL LIABILITIES	\$38,862	\$1,769	\$40,631
FUND BALANCES			
Reserved	\$645		\$645
Unreserved	62,900	150,913	213,813
TOTAL FUND BALANCES	\$63,545	\$150,913	\$214,458
TOTAL LIABILITIES AND FUND BALANCES	\$102,407	\$152,682	\$255,089

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balances for Governmental Funds	\$214,458
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of :	44,988

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$259,446
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The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

Year ended March 31, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Taxes	\$5,831	\$16,677	\$22,508
Other taxes	207		207
Tax administrative fees	4,767		4,767
Federal shared revenues		9,136	9,136
State shared revenues	34,360	907	35,267
Charges for services	2,253	1,240	3,493
Interest	868	2,995	3,863
Donations	840		840
Other revenue	5,372		5,372
	<hr/> \$54,498	<hr/> \$30,955	<hr/> \$85,453
EXPENDITURES			
Legislative	\$13,821	\$	\$13,821
General government	25,830		25,830
Public safety	482	8,377	8,859
Public works	7,251		7,251
Recreation and culture	998		998
Other	2,170		2,170
	<hr/> \$50,552	<hr/> \$8,377	<hr/> \$58,929
EXCESS OF REVENUES (EXPENDITURES)	3,946	22,578	26,524
OTHER FINANCING SOURCES (USES)			
Transfers to/from other funds	(6,853)	6,853	
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	(\$2,907)	\$29,431	\$26,524
Fund Balance at 3/31/2004	66,452	121,482	187,934
FUND BALANCE MARCH 31, 2005	<hr/> \$63,545	<hr/> \$150,913	<hr/> \$214,458

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended March 31, 2005

Continued

Reconciliation of the change in fund balances – Total Governmental Funds to the changes in net assets of governmental activities:

Net change in fund balances – Total Governmental Funds	\$26,524
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	\$570
Depreciation expense	(5,141)

Change in Net Assets of Governmental Activities	<u>\$21,953</u>
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The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE- BUDGET TO ACTUAL
GENERAL FUND

Year ended March 31, 2005

Budgeted Amounts

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$6,000	\$6,000	\$5,831	(\$169)
Other taxes	480	480	207	(273)
Tax administrative fees	3,970	3,970	4,767	797
Federal shared revenues				
State shared revenues	28,000	28,000	34,360	6,360
Charges for services	3,080	3,080	2,253	(827)
Interest	500	500	868	368
Donations			840	840
Other revenue	2,975	2,975	5,372	2,397
	<u>\$45,005</u>	<u>\$45,005</u>	<u>\$54,498</u>	<u>\$9,493</u>
EXPENDITURES				
Legislative	\$24,318	\$24,318	\$13,821	\$10,497
General government	23,475	23,475	25,830	(2,355)
Public safety	1,350	1,350	482	868
Public works	6,400	6,400	7,251	(851)
Recreation and culture	400	400	998	(598)
Other	15,365	15,365	2,170	13,195
	<u>\$71,308</u>	<u>\$71,308</u>	<u>\$50,552</u>	<u>\$20,756</u>
EXCESS OF REVENUES (EXPENDITURES)	(\$26,303)	(\$26,303)	\$3,946	\$30,249
OTHER FINANCING SOURCES (USES)				
Transfers to/from other funds	(6,748)	(6,748)	(6,853)	(105)
EXCESS OF REVENUES EXPENDITURES) AND OTHER FINANCING USES	(\$33,051)	(\$33,051)	(\$2,907)	\$30,144
Fund Balance at 3/31/2004	66,452	66,452	66,452	
FUND BALANCE MARCH 31, 2005	\$33,401	\$33,401	\$63,545	\$30,144

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

March 31, 2005

	Business type Activities- Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$29,585	\$120,029	\$149,614
Accounts receivable-net	10,262	1,119	11,381
Due from other funds	2,460	2,874	5,334
Accrued interest income	75	338	413
Deferred charges	1,607	701	2,308
Total Current Assets	\$43,989	\$125,061	\$169,050
RESTRICTED ASSETS:			
Cash	24,108		24,108
Total Restricted Assets	\$24,108		\$24,108
NONCURRENT ASSETS:			
Property, plant and equipment	1,057,106	1,131,232	2,188,338
Accumulated depreciation	(314,056)	(591,902)	(905,958)
Total Non-Current Assets	\$743,050	\$539,330	\$1,282,380
TOTAL ASSETS	\$811,147	\$664,391	\$1,475,538
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$225	\$89	\$314
Accrued wages/taxes	612	242	854
Contractor payable	3,950		3,950
Accrued interest payable	3,383		3,383
Due to other funds		2,460	2,460
Current maturity on long-term debt	4,000		4,000
Total Current Liabilities	\$12,170	\$2,791	\$14,961
LONG TERM LIABILITIES			
Revenue bonds payable	203,000		203,000
Less current maturity on long-term debt	(4,000)		(4,000)
Total Long Term Liabilities	\$199,000		\$199,000
TOTAL LIABILITIES	\$211,170	\$2,791	\$213,961
NET ASSETS:			
Investment in capital assets, net of related debt	540,050	539,330	1,079,380
Unreserved	59,927	122,270	182,197
TOTAL NET ASSETS	\$599,977	\$661,600	\$1,261,577
TOTAL LIABILITIES AND NET ASSETS	\$811,147	\$664,391	\$1,475,538

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS TYPE
Year ended March 31, 2005

Business type Activities - Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$45,361	\$1,152	\$46,513
Total Operating Revenues	\$45,361	\$1,152	\$46,513
Operating expenses:			
Wages and benefits	\$9,093	\$5,568	\$14,661
Contractual cost	2,896	3,250	6,146
Provision for depreciation	21,394	28,685	50,079
Operating supplies/maintenance	6,164	322	6,486
Transportation	296	231	527
Utilities	2,061		2,061
Insurance	2,192	929	3,121
Administration	633	245	878
Professional fees	1,340	1,340	2,680
Miscellaneous	501	142	643
Total Operating Expenses	\$46,570	\$40,712	\$87,282
Operating income (loss)	(\$1,209)	(\$39,560)	(\$40,769)
Non-operating revenues (expenses)			
Interest income	\$644	\$1,734	\$2,378
Special assessments		3,686	3,686
Interest expense	(10,600)		(10,600)
Total non-operating revenues (expenses)	(\$9,956)	\$5,420	(\$4,536)
Change in Net Assets	(\$11,165)	(\$34,140)	(\$45,305)
Net Assets - March 31, 2004	611,142	695,740	1,306,882
NET ASSETS - MARCH 31, 2005	\$599,977	\$661,600	\$1,261,577

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS TYPE
Year ended March 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$44,491	\$1,632	\$46,123
Payments to supplies	(20,660)	(4,972)	(25,632)
Payments to employees	(8,481)	(5,391)	(13,872)
Net Cash Provided (Used) by Operating Activities	\$15,350	(\$8,731)	\$6,619
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Special assessments	\$	\$3,686	\$3,686
Purchase of capital assets	(247)	(246)	(493)
Principal paid on bonds payable	(13,941)		(13,941)
Interest paid on bonds payable	(10,600)		(10,600)
Net Cash Provided (Used) for Capital and Related Financing Activities	(\$24,788)	\$3,440	(\$21,348)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	644	1,734	2,378
Net Cash Provided (Used) by Investing Activities	\$644	\$1,734	\$2,378
Net Increase (Decrease) in Cash	(\$8,794)	(\$3,557)	(\$12,351)
Cash and Cash Equivalents, March 31, 2004	62,487	123,586	186,073
CASH AND CASH EQUIVALENTS, MARCH 31, 2005	\$53,693	\$120,029	\$173,722
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(\$1,209)	(\$39,560)	(\$40,769)
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:			
Depreciation/amortization	21,394	28,685	50,079
Change in assets and liabilities:			
Accounts receivable	(870)	481	(38,431)
Due from other funds	(2,213)	(658)	
Accrued interest income	(2)	(8)	
Prepaid insurance	(626)	(273)	136
Accounts payable	49	24	(53,765)
Accrued wages	612	242	(5,367)
Accrued interest payable	(251)		
Due to other funds	(1,534)	2,336	(4,682)
Net Cash Provided by Operating Activities	\$15,350	(\$8,731)	(\$51,263)

Noncash investing, capital and financing activities: None

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
Year ended March 31, 2005

Agency Funds	
	Tax Collection <u>Fund</u>
ASSETS	
Cash and cash equivalents	\$265
TOTAL ASSETS	<u>\$265</u>
LIABILITIES	
Due to Township	\$265
Due to County	
TOTAL LIABILITIES	<u>\$265</u>
NET ASSETS	
TOTAL NET ASSETS	<u> </u>
TOTAL LIABILITES AND NET ASSETS	<u>\$265</u>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Township of Interior operates with an elected board of trustees, which includes a supervisor, clerk and treasurer. The Township provides to its residents, services in many areas including public safety, highways and streets, sanitation, culture and recreation, planning and zoning, and general administrative services.

The Township complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Township the option of electing to apply FASB pronouncements issued after November 30, 1989. The Township has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended March 31, 2005, the Township implemented the new financial reporting requirement of GASB Statement No. 34. As a result, an entirely new financial presentation format has been implemented.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has no component units.

Basis of Presentation

The Statement of Net Assets and Statement of Activities display information about the reporting as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund - is the primary operating fund of the Township and always classified as a major fund. This fund is used to account for all financial resources except those legally or administratively required to be accounted for in another fund.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes such as road, fire, building inspection and liquor law enforcement activities.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds report operations that provide services, which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The funds are used to account for utility operations in a manner similar to private business enterprises. The intent of the Township is to recover operating expenses, including depreciation, through user charges.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

FIDUCIARY FUND TYPE (Not included in government-wide statements)

Agency Funds - These funds are used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. They include the Tax Collection Fund and the Pension Fund. These funds are custodial in nature and do not involve measurement of results of operations. The Pension Fund is a trust fund used to account for the accumulation of resources deposited into a defined contribution pension plan payable to retired board members. However, due to incomplete records, the Statement of Changes of Net Assets for pension activities are not included in the financial statements as required.

MAJOR AND NONMAJOR FUNDS

The governmental and enterprise funds of the Township are further classified as major and nonmajor funds as follows:

<u>Fund</u>	<u>Brief Description</u>
<u>MAJOR FUNDS</u>	
1. General	See above for description.
2. Water	Account for revenues and expenses of providing water services to the public.
3. Sewer	Account for revenues and expenses of providing sewer services to the public.
<u>NONMAJOR FUNDS</u>	
4. Building Inspection	Account for revenues and expenditures of Building inspection activities.
5. Liquor Law Enforcement	Account for enforcement of compliance with liquor law operations.
6. Fire	Account for fire department operating and Capital outlays.
7. Roads	Account for improvements made to roads, Bridges, and sidewalks.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the Township. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. See Note G for details of interfund transactions, including receivables and payable at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes; delinquent real property taxes; and tax administrative fees. No allowance for uncollectible accounts has been recognized in the financial statements. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include service revenue accruals since they are usually both measurable and available. Interest and investment earnings are recorded when accrued. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of small proprietary fund receivables. Delinquent account balances can be placed on tax rolls and can be a lien against real property. Receivables are considered fully collectable.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Inventories

Inventories of Governmental Fund and Proprietary Fund types operating supplies are considered to be immaterial and are not recognized in the financial statements.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with initial individual costs of \$50 and \$100 and an estimated life in excess of two years for governmental funds and proprietary funds, respectively. All fixed assets are valued at historical costs or estimated cost, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets for governmental funds. Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' statement of net assets. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The estimated useful lives for each major class of depreciable fixed assets are as follows:

Utility Plant	40-50 Years
Buildings and improvements	40-50 Years
Equipment	5-10 Years
Vehicles	5 Years
Software	3 Years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Restricted Assets

Proprietary Fund Types Funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of cash that can be used only to service outstanding debt and to pay for repairs and maintenance of the utility systems. The Township has deposited monies to meet the minimal amounts required per covenants.

The Governmental Fund has designated \$645 in monies for future building inspection activities.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations of proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of revenue bonds outstanding. There was no long-term debt for governmental funds which would need to be reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the ensuing December 1. The Township bills and collects its own property taxes and also collects current rolls for the County and School District. The Township records delinquent real property taxes as revenue upon levy; since the County will sell tax notes and remits monies to the various units of government shortly after year end.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Budgets

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the proposed budget for each budgetary fund is submitted to the Township Board for consideration. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held at the annual Township Board meeting to obtain taxpayers comments.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted prior to the fiscal year by the majority vote of the Township Board.
5. The budgets are adopted on the full accrual basis of accounting.
6. Any revisions to the budgeted amounts must be approved by a majority vote of the Township Board.
7. Budget appropriations lapse at the end of each fiscal year.
8. Budgeted amounts presented in the financial statements are as originally adopted and amended by the Township Board.

Formal budgets for special revenue funds and proprietary funds were adopted in a similar manner as the General Fund.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and/or services. It also includes all revenue and expenses, not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Interest Expense

Interest on bonded indebtedness is recorded as expenditure as accrued.

Interest Receivables

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTE B – BALANCE SHEET - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Township. Michigan Compiled Laws authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority. Furthermore, certificates of deposits values approximate marker value.

Following is a summary of the carrying amount of cash at March 31, 2005:

Cash deposited in banks insured by federal depository insurance	\$375,702
Funds in excess of insurance limits	66,182
Less outstanding items	(55,380)
Total	<u>\$386,504</u>

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE C - RECEIVABLES

Accounts receivable and related allowances for uncollectible are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$7,738	\$	\$7,738
Water Fund	\$10,262	\$	\$10,262
Sewer Fund	\$2,874	\$	\$2,874
SRF-Road Fund	\$1,405	\$	\$1,405
-Fire Fund	\$1,470	\$	\$1,470

General Fund - generally consists of delinquent tax monies, tax administrative fees and state shared revenues to be remitted to Township shortly after year-end.

Special Revenue (SRF) Funds - generally relate to delinquent tax monies.

Proprietary Funds - customer unpaid balances. Delinquent accounts balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible and accordingly, there is not allowance for doubtful accounts.

Customer billing for the month of March 2005	\$3,934
Delinquent billings	9,202
Total	<u>\$13,136</u>

Delinquent account balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible.

NOTE D - SUMMARY OF TAX ROLL

Following is a summary of the 2004 property tax roll:

	<u>Levy</u>	<u>Taxes Returned Delinquent</u>	<u>Net Tax Collected</u>
Real/Personal Property taxes:			
County	\$167,143	\$22,109	\$145,034
School/SET	102,817	19,847	82,970
Township	27,286	3,610	23,676
CFR	898		898
Special Assessments/Delinquent utilities	5,939	3,065	2,874
Totals:	<u>\$304,083</u>	<u>\$48,631</u>	<u>\$255,452</u>

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Taxable Valuation	
Homestead	\$3,045,285
Non-homestead	<u>3,124,462</u>
Total	<u>\$6,197,747</u>

NOTE E - DELINQUENT TAX RECEIVABLE

The County of Ontonagon purchases the delinquent real property taxes of the Township for the 2004 levied. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these delinquent taxes shortly after yearend. The delinquent real property taxes are recorded as current year tax revenues.

NOTE F - PUBLIC ACT 275 OF 1980 DISCLOSURE

The Township had no deficits in any funds as of March 31, 2005, which would require specific disclosure.

NOTE G - INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payable at March 31, 2005, are as follows:

<u>Funds</u>	<u>Interfund Receivable</u>	<u>Funds</u>	<u>Interfund Payable</u>
General Fund- Tax	\$265	Tax Fund- General	\$265
Fire Fund- Road	1,091	Sewer Fund- Water	2,460
General	11,701	General Fund- Road	13,913
Water Fund- Sewer	2,460	Sewer	2,874
Sewer Fund- General	2,874	Fire	11,701
Road Fund- General	13,913	Road Fund- Fire	1,091
Totals	<u>\$32,304</u>	Totals	<u>\$32,304</u>

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE H – CAPITAL ASSETS

A summary of changes in general fixed assets follow:

Governmental Activities	Balance at			Balance at
Capital Assets not Depreciated	<u>March 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2005</u>
Land	\$23,326	\$	\$	\$23,326
Capital Assets being Depreciated				
Buildings and improvements	59,235			59,235
Equipment and furniture	59,844	570		60,414
Vehicles	43,936			43,936
Total Depreciated Assets	\$163,015	\$570		\$163,585
Less Accumulated Depreciation for:				
Building and improvements	(\$51,673)	(\$212)	\$	(\$51,885)
Equipment and furniture	(41,173)	(4,929)		(46,102)
Vehicles	(43,936)			(43,936)
Subtotals	(\$136,782)	(\$5,141)	\$	(\$141,923)
Net Capital Assets Being Depreciated	\$26,233	(\$4,571)		\$21,662
Governmental Activities Capital	\$49,559	(\$4,571)	\$	\$44,988
Total Capital Assets-Net of Depreciation				

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE I - ENTERPRISE FUNDS - CAPITAL ASSETS

A summary of proprietary fund type property, plant and equipment at March 31, 2005 follows:

Business-Type Activities	Balance at March 31, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance at March 31, <u>2005</u>
Capital Assets not Depreciated				
Capital Assets being Depreciated				
Equipment	\$4,688	\$493		\$5,181
Utility plant	2,183,157			2,183,157
Subtotals	\$2,187,845	\$493	\$	\$2,188,338
Less Accumulated Depreciation for Equipment and Utility plant	(855,879)	(50,079)		(905,958)
Governmental Activities Capital	\$1,331,966	(\$49,586)	\$	\$1,282,380
Total Capital Assets-Net of Depreciation				

Depreciation is computed using the straight-line method.

NOTE J - LIQUOR LICENSE REBATES

Liquor license monies totaling \$907 were received during the year and were used to pay \$560 in enforcement expenses with the balance transferred to the General Fund.

NOTE K - ACCOUNTS PAYABLE

The Governmental Type account payables were for normal expenditures at year-end with the exception of tax monies due to an ambulance company amounting to \$2,498. The Enterprise Fund included \$3,950 in contractor repairs contracted but not completed by year end in addition to normal expenditures at year end.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE L – ENTERPRISE FUNDS - REVENUE BONDS

On May 24, 1990, the Township issued \$235,000 in water revenue bonds to partially finance the cost of acquiring and constructing the water system. The bonds bear interest at the rate of 5% per annum, which is payable semi-annually on June 1 and December 1 of each year. The bonds are recorded in the Water Fund. As of March 31, 2005, \$203,000 of the bonds remained outstanding as follows:

Due <u>December 1</u>	Principal <u>Amount</u>
2005	\$ 4,000
2006	5,000
2007	5,000
2008	5,000
2009	6,000
2010	6,000
2011	6,000
2012	6,000
2013	7,000
2014	7,000
2015	7,000
2016	8,000
2017	8,000
2018	9,000
2019	9,000
2020	9,000
2021	9,000
2022	9,000
2023	10,000
2024	10,000
2025	10,000
2026	11,000
2027	12,000
2028	12,000
2029	<u>13,000</u>
Total Outstanding	<u>\$203,000</u>

Bonds are subject to redemption prior to maturity on any interest payment date in inverse numerical order. Debt service schedules reflecting interest due each year was unavailable for disclosure.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2003

These revenue bonds are self-liquidating bonds and are not a general obligation of the Township of Interior, but are payable solely from the revenues of Water System.

NOTE M – LONG-TERM DEBT

A summary of the changes in general long-term debt follows:

	Balance at March 31, 2004	Additions (Deletions)	Balance at March 31, 2005
Water Bonds	\$216,941	(\$13,941)	\$203,000

NOTE N – DEFINED CONTRIBUTION PENSION PLAN

The Township has a defined contribution pension plan administered by Municipal Retirement Systems, Inc., with the Township Clerk being the plan trustee. The Township contributes pension proceeds equal to twelve percent of Board members salaries, which are immediately vested in Gleaner's Life Insurance and Travelers Life and Annuity funds. Pension expense for the fiscal year ended March 31, 2005 was \$1,545. All financial documentation was not on file in allowing for complete disclosure and reporting.

NOTE O – RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$2,000,000 per occurrence and a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund, Special Revenue Funds and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. One tax appeal case is pending before the tax tribunal court relating to an alleged overpayment of personal property taxes resulting from the use of state multipliers. Management has hired representation and is of opinion that if any potential settlement will have an immaterial impact on the financial statement. Therefore, no loss contingency is reflected in the financial statements.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2005, will not materially affect the financial condition of the Township. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE P - RESTRICTED CASH ACCOUNTS

The Township has designated in General Fund monies of \$645 towards future building inspection activities. The Proprietary Funds have established and funded (\$24,108) various cash accounts in fulfilling various bond covenant agreements.

The Township adopted ordinances before Water System Bonds were issued which required certain bank accounts be established and funded periodically.

Receiving Account- All receipts are initially deposited into this account
Operation and Maintenance Accounts-Quarterly transfers are to be made to cover upcoming operating expenses
Bond and Interest Redemption Account-Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due
Bond Reserve Accounts-Excess funds of up to \$350 per quarter are to be transferred to this account until \$14,000 is accumulated

INTERIOR TOWNSHIP
 MAJOR GOVERNMENTAL FUNDS
 GENERAL FUND
 DETAIL OF REVENUES AND OTHER FINANCING SOURCES
 BUDGET AND ACTUAL
 Year ended March 31, 2005

REVENUES	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Current property taxes	\$6,000	\$6,000	\$5,831	(\$169)
Delinquent property taxes	340	340	37	(303)
Commercial forest reserve	90	90	127	37
Swamp taxes	50	50	43	(7)
Tax administrative fees	3,970	3,970	4,767	797
Total taxes	\$10,450	\$10,450	\$10,805	\$355
State shared revenues	28,000	28,000	34,360	6,360
Charges for services	3,080	3,080	2,253	(827)
Reimbursements	600	600	3,204	2,604
Cabin lease income	1,875	1,875	1,875	
Miscellaneous	500	500	293	(207)
Donations			840	840
Interest income	500	500	868	368
TOTAL REVENUES	\$45,005	\$45,005	\$54,498	\$9,493
Other financing sources-Transfer from other funds	452	452	347	(105)
TOTAL REVENUES AND OTHER FINANCING SOURCE	\$45,457	\$45,457	\$54,845	\$9,388

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
LEGISLATIVE				
Township Board:				
Salaries			\$1,800	
Retirement			1,545	
Office supplies			806	
Communications			397	
Professional fees			2,369	
Printing and publications			325	
Insurance			5,356	
Dues			386	
Miscellaneous			580	
Equipment			257	
TOTAL LEGISLATIVE	\$24,318	\$24,318	\$13,821	\$10,497
General Government:				
Supervisor:				
Salaries			\$3,600	
Office supplies			21	
Communications			35	
Miscellaneous			9	
TOTAL SUPERVISOR	\$3,930	\$3,930	\$3,665	\$265
ELECTION	\$800	\$800	\$947	(\$147)
Assessor:				
Wages			\$1,100	
Office supplies			253	
Contractual costs			884	
Training			130	
Miscellaneous			73	
TOTAL ASSESSOR	\$2,795	\$2,795	\$2,440	\$355

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Clerk:				
Salary			\$1,200	
Deputy wages			6	
Office supplies			148	
Transportation			45	
Training			300	
Other			223	
TOTAL CLERK	\$1,710	\$1,710	\$1,922	(\$212)
 TOTAL BOARD OF REVIEW	 \$530	 \$530	 \$603	 (\$73)
 Treasurer:				
Salary			\$2,075	
Deputy wages			173	
Office supplies			1,792	
Transportation			647	
Training			130	
Miscellaneous			35	
TOTAL TREASURER	\$5,750	\$5,750	\$4,852	\$898
 Cemetery:				
Wages			\$50	
Contract costs			1,220	
TOTAL CEMETERY	\$1,100	\$1,100	\$1,270	(\$170)

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Township Properties:				
Wages			\$2,075	
Supplies			1,062	
Utilities			4,085	
Repairs & maintenance			2,909	
	\$6,860	\$6,860	\$10,131	(\$3,271)
TOTAL GENERAL GOVERNMENT	\$23,475	\$23,475	\$25,830	(\$2,355)
Public Safety:				
Zoning/planning	\$1,350	\$1,350	\$482	\$868
TOTAL PUBLIC SAFETY	\$1,350	\$1,350	\$482	\$868
Public Works:				
Street lights	\$5,000	\$5,000	\$5,751	(\$751)
Sanitation	1,400	1,400	1,500	(100)
TOTAL PUBLIC WORKS	\$6,400	\$6,400	\$7,251	(\$851)
TOTAL RECREATION & CULTURE	\$400	\$400	\$998	(\$598)
OTHER				
Payroll taxes	\$12,365	\$12,365	\$2,170	\$10,195
Contingency	3,000	3,000		3,000
TOTAL OTHER	\$15,365	\$15,365	\$2,170	\$13,195
TRANSFERS TO OTHER FUNDS	\$7,200	\$7,200	\$7,200	

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS

INTERIOR TOWNSHIP

Year ended March 31, 2005

	<u>Road Fund</u>	<u>Liquor Law Enforcement</u>	<u>Fire Fund</u>	<u>Building Inspections</u>	<u>Totals</u>
Assets:					
Cash in bank	\$104,866	\$	\$16,503	\$	\$121,369
Accounts receivable- net	1,405		1,470		2,875
Due from other funds	13,913		12,792		26,705
Prepaid expenses			1,733		1,733
Total Assets	\$120,184	\$	\$32,498	\$	\$152,682
Liabilities & Equity:					
Accounts payable	\$513	\$	\$15	\$	\$528
Accrued wages			150		150
Due to other funds	1,091				1,091
Total Liabilities	\$1,604	\$	\$165	\$	1,769
Fund balance- unreserved	118,580		32,333		150,913
Total Equity & Liabilities	\$120,184	\$	\$32,498	\$	\$152,682

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

INTERIOR TOWNSHIP
Year ended March 31, 2005

	<u>Road Fund</u>	<u>Liquor Law Enforcement</u>	<u>Fire Fund</u>	<u>Building Inspections</u>	<u>Totals</u>
Revenues:					
Federal grants	\$9,136	\$	\$	\$	\$9,136
State grants		907			907
Charges for services				1,240	1,240
Property tax levy	6,402		10,275		16,677
Interest income	2,428		567		2,995
Total Revenues	\$17,966	\$907	\$10,842	\$1,240	\$30,955
Expenditures:					
Public safety	\$	\$560	\$6,264	\$1,240	\$8,064
Capital outlay			313		313
Total Expenditures	\$	\$560	\$6,577	\$1,240	\$8,377
Excess (Deficiency) of	\$17,966	\$347	\$4,265	\$	\$22,578
Revenues over Expenditures					
Other financing sources (use)-		(347)	7,200		6,853
Operating Transfers					
Excess (Deficiency) of	17,966		11,465		29,431
Revenues and Other Financing					
Source Over Expenditures and					
Other Financing Use					
Fund balance 3/31/04	100,614		20,868		121,482
Fund balance 3/31/05	\$118,580	\$	\$32,333	\$	\$150,913

The accompanying notes are an integral part of the financial statements.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Supervisor and Members of the Board
Interior Township
Ontonagon County
Trout Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Interior Township as of and for the year ended March 31, 2005, which collectively comprise the Township of Interior basic financial statements and have issued our report thereon dated January 19, 2006. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Interior's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered the Township of Interior's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements.

Reportable condition noted in our review is described as follows:

1. Our audit noted improvements in the General Fund records, whereas, the Enterprise Funds records were not posted according to fund types but according to bank accounts, requiring reposting of various bank accounts. Furthermore, we were unable to locate several invoices selected for review of expenditures.

We would recommend all cash accounts be posted to the respective funds to accommodate an expedient audit. Furthermore, all check warrant copies should have appropriate documentation attached upon Board review and approval.

2. The Township Board needs to adopt procedures to ensure that:

- a. Township assets are properly inventoried and accounted for at year-end. A complete formal listing was unavailable in support the amount being reported in the audit report. A detail physical inventory will need to be conducted; assets valued; and amounts adjusted by the Board in providing an accurate basis for reporting and insurance coverage purposes.

- b. Payroll records and reports will need to be prepared accurately and taxes paid timely. Our review of payroll reports identified inconsistent treatment of Board members covered under a pension and exempt from social security taxes on Form 941. Not all payroll reports were all provided and the forms provided, did not readily support tax deposits being made which would indicate that reports provided for audit purposes may have been edited. Furthermore, the Township has been paying late fees as the result of not depositing taxes directly to a banking institution in a timely manner. Also, not all pension statements on pension participants were maintained for audit purposes.

The Township Clerk needs to establish accurate payroll files to properly document earnings and taxes withheld on monthly basis and incorporate results in preparing quarterly and annual reports. Deposits for federal taxes should be made monthly to avoid potential late fees and penalties. Files should be established in documenting all payroll related payments/withholding and retained for audit purposes.

- c. Safeguarding of important papers, certificates of deposit, accounting records, unused checks, backup files, etc., should be kept in a fireproof vault. Currently, files are safeguard in unsecured file cabinets and computer utility billing program is not password protected in safeguarding against unauthorized access. Furthermore, duplicate utility billing reports should be provided to the Treasurer for safekeeping and retained for audit purposed on a monthly basis.

- d. Interfund receivables and payables which include the tax fund, identified transfers made in error or did not provide adequate disclosure to readily verify the accuracy and purpose of such transfer. Furthermore, ambulance tax collections were deposited into the operating account and not paid out as required.

Greater care should be exercised in preparing interfund transfers and assuring that monies are remitted to the appropriate parties or funds.

A material weakness is a reportable condition in which the design or operation of one of more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described in item 1 and 2 (a) above are believed to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Members of the Board, is a matter of public record.



Roger J. Kolehmainen PC
Certified Public Accountant

January 19, 2006